

**REPORT OF THE AUDIT OF THE  
ROCKCASTLE COUNTY  
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period  
April 16, 2014 Through April 15, 2015**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**ROCKCASTLE COUNTY**  
**SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period**  
**April 16, 2014 Through April 15, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Rockcastle County Sheriff for the period April 16, 2014 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected 2014 taxes of \$3,371,359 for the districts, retaining commissions of \$138,988 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$3,231,043 to the districts. Refunds of \$291 are due to the Sheriff from the taxing districts.

**Report Comment:**

2014-001    The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

**Deposits:**

The    Sheriff's    deposits    were    insured    and    collateralized    by    bank    securities.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Doug Bishop, Rockcastle County Judge/Executive  
Honorable Michael E. Peters, Rockcastle County Sheriff  
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Rockcastle County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Rockcastle County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Rockcastle County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through April 15, 2015 of the Rockcastle County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2016 on our consideration of the Rockcastle County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rockcastle County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
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Honorable Michael E. Peters, Rockcastle County Sheriff  
Members of the Rockcastle County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

April 12, 2016

ROCKCASTLE COUNTY  
MICHAEL E. PETERS, SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 292,860	\$ 679,584	\$ 1,520,617	\$ 458,062
Tangible Personal Property	13,857	48,839	70,132	66,296
Fire Protection	1,604			
Increases Through Exonerations	1	3	4	4
Franchise Taxes	39,364	122,020	198,679	
Additional Billings	16	36	81	24
Unmined Coal - 2014 Taxes	12	29	64	19
Oil Property Taxes	74	171	382	115
Limestone, Sand and Gravel Reserves	193	449	1,005	303
Omitted Limestone, Sand, and Gravel	15	35	78	23
Penalties	2,426	5,698	12,526	3,829
Adjusted to Sheriff's Receipt	(45)	(153)	(226)	(68)
Gross Chargeable to Sheriff	<u>350,376</u>	<u>856,711</u>	<u>1,803,342</u>	<u>528,607</u>
<u>Credits</u>				
Exonerations	1,606	3,721	8,326	2,508
Discounts	4,269	10,110	22,036	7,388
Delinquents:				
Real Estate	10,402	24,053	53,821	16,213
Tangible Personal Property	221	778	1,117	945
Franchise Taxes - Uncollected	<u>17</u>	<u>60</u>	<u>86</u>	
Total Credits	<u>16,515</u>	<u>38,722</u>	<u>85,386</u>	<u>27,054</u>
Taxes Collected	333,861	817,989	1,717,956	501,553
Less: Commissions *	<u>14,189</u>	<u>34,765</u>	<u>68,718</u>	<u>21,316</u>
Taxes Due	319,672	783,224	1,649,238	480,237
Taxes Paid	319,533	782,956	1,648,525	480,029
Refunds (Current and Prior Year)	<u>165</u>	<u>347</u>	<u>850</u>	<u>257</u>
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (26)</u>	<u>\$ (79)</u>	<u>\$ (137)</u>	<u>\$ (49)</u>

\*\*

\* and \*\* See next page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
MICHAEL E. PETERS, SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES  
For The Period April 16, 2014 Through April 15, 2015  
(Continued)

\* Commissions:

4.25% on \$ 1,653,403

4% on \$ 1,717,956

\*\* Special Taxing Districts:

Library District	\$	(24)
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Health District		(20)
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Extension District		(12)
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Soil Conservation		(23)
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(Refunds Due Sheriff)	\$	<u>(79)</u>
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ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2015  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rockcastle County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Periods

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2014 through April 16, 2015.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 13, 2015 through April 16, 2015.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$107 as interest income on 2014 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of April 12, 2016, the Sheriff owed \$21 in interest to the school district and \$10 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$20,811 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Doug Bishop, Rockcastle County Judge/Executive  
Honorable Michael E. Peters, Rockcastle County Sheriff  
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Rockcastle County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 12, 2016. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Rockcastle County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rockcastle County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)


**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a stylized flourish at the end.

Mike Harmon  
Auditor of Public Accounts

April 12, 2016

COMMENT AND RECOMMENDATION



ROCKCASTLE COUNTY  
MICHAEL E. PETERS, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2014 Through April 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

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The Sheriff's Office lacks adequate segregation of duties over receipts and disbursements. During our review of internal controls, we noted the Sheriff employs two bookkeepers. One bookkeeper is responsible for opening mail, writing checks and has signature authority. The second bookkeeper, who is part-time, is responsible for posting receipts and disbursements to the receipts and disbursements ledgers, as well as preparing the bank reconciliation. Both bookkeepers collect receipts, prepare bank deposits, prepare the daily tax report and can initiate voided transactions in the computerized tax system.

Adequate segregation of duties ensures internal controls are properly segregated. When adequate segregation of duties cannot be accomplished due to budget constraints and limited staff, the Sheriff should implement strong compensating controls to offset this weakness. The implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities. The lack of proper segregation of duties or compensating controls could result in the undetected misappropriation of assets and/or inaccurate financial reporting.

We recommend the Sheriff implement and document the following compensating controls:

- The Sheriff should recount cash and agree back to the deposit ticket. The Sheriff should document this by initialing the deposit ticket.
- The Sheriff should perform surprise cash counts.
- The Sheriff should compare monthly reports to the receipt and disbursement ledgers as well as the bank reconciliations. The Sheriff should document this by initialing the receipt and disbursement ledgers along with the bank reconciliations.
- The Sheriff should reconcile the daily tax report to the daily deposit. The Sheriff should document this by initialing the daily tax report and the daily deposit ticket.
- If a void is required, the reason of the void should be included on the tax bill in the computerized tax system. In addition, all voids should be maintained with supporting documentation. The void, along with the supporting documentation, should be approved by the Sheriff. The Sheriff should compare the void to a monthly voided report generated by the computerized tax system.
- The Sheriff should reconcile daily tax reports to the monthly tax report, receipt ledger and bank statement. The Sheriff should document this by initialing the daily tax report, receipt ledger and bank statement.
- The Sheriff should receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the bookkeeper for reconciliation.

*Sheriff's Response:* None.

